

# Senate Health & Long-term Care House Health Care & Wellness Reinsurance presentation Thursday, February 1, 2007

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# Why reinsurance programs for small employers?

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1. Could stabilize rates for small employers.
  - Healthy New York – reduced uncertainty for smaller carriers.
2. Provide premium assistance to small employers.

# Workforce transition

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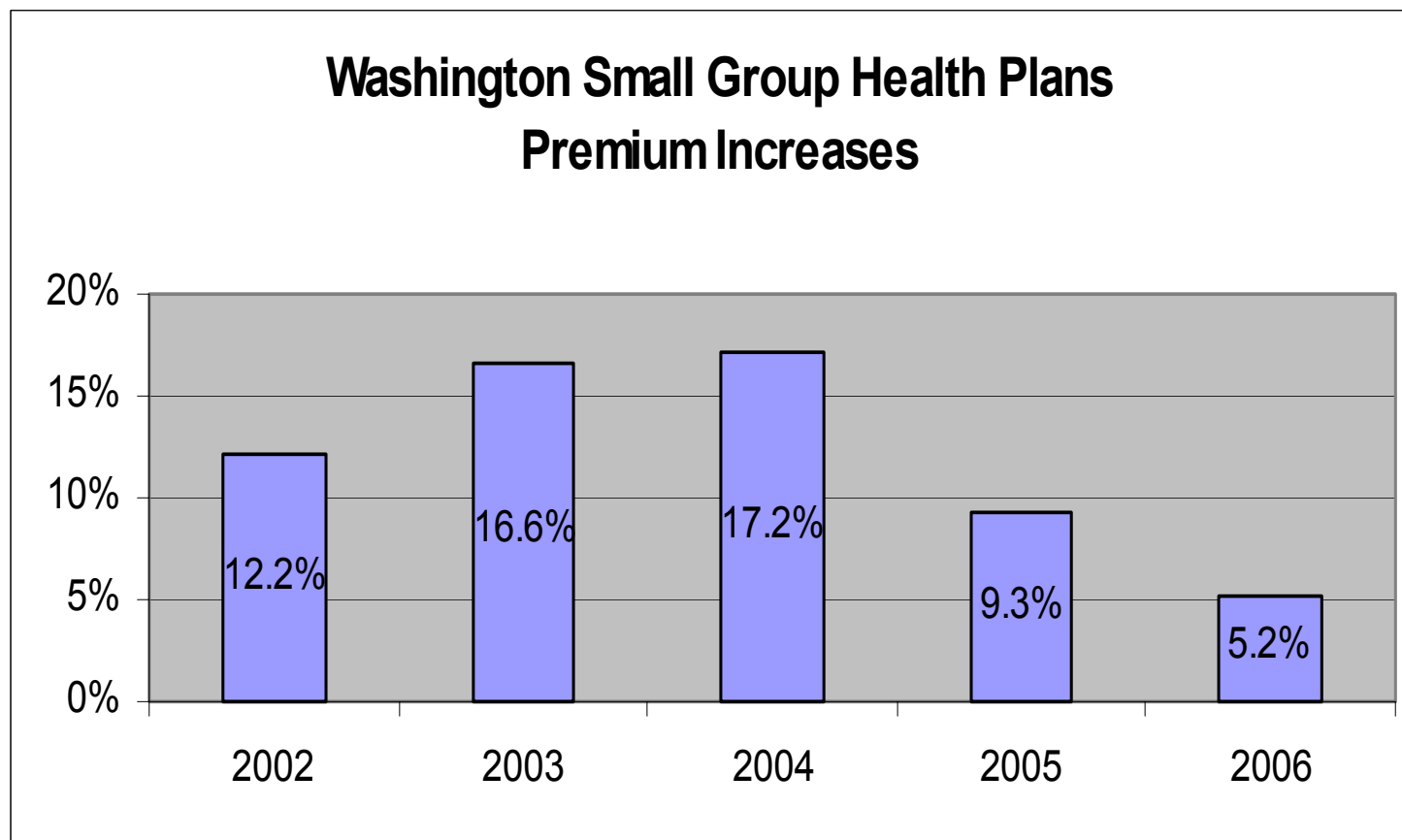
- Moving away from large employers

## Washington Employment

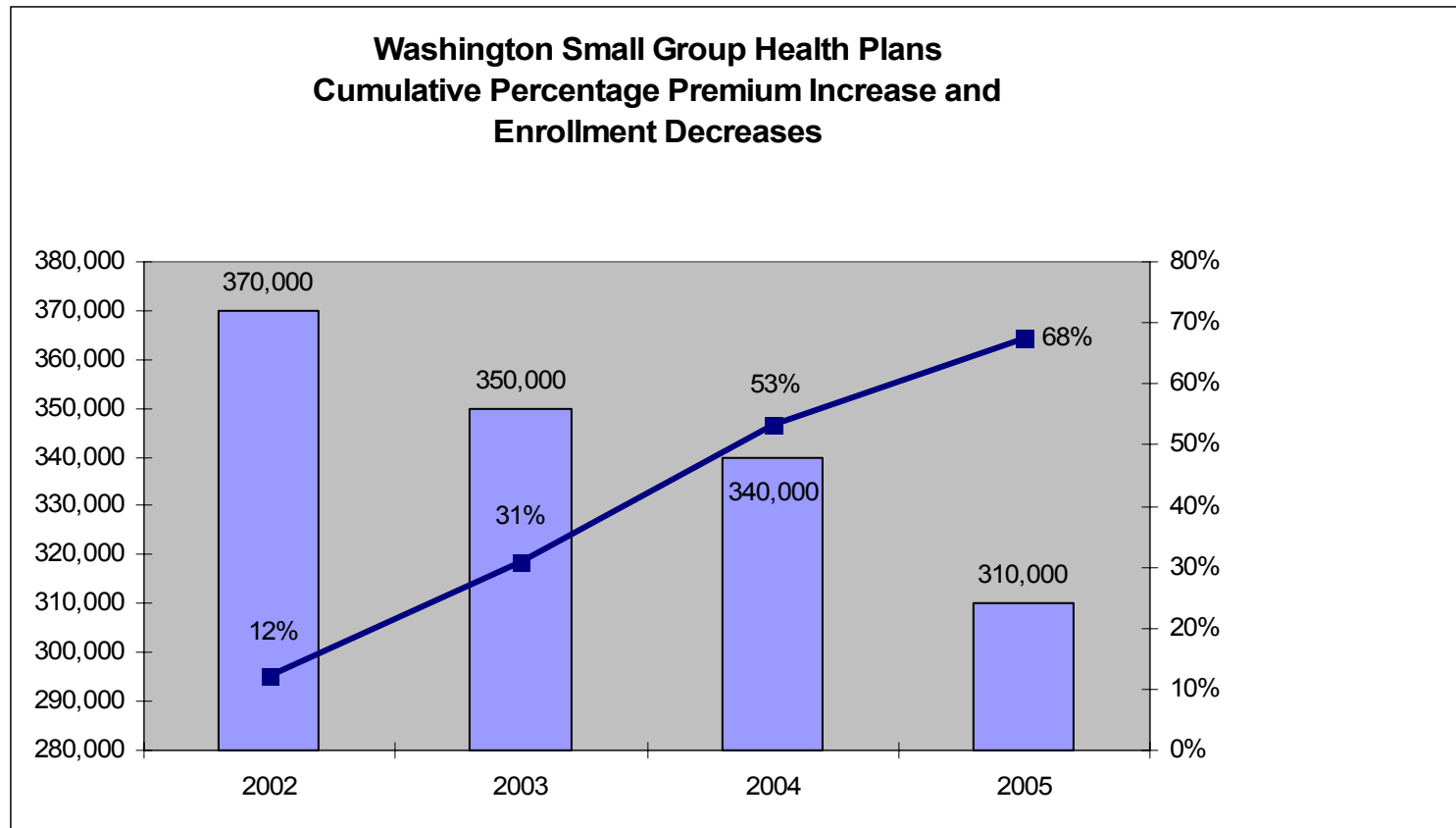
	<u>Manufacturing</u>	<u>Services</u>
<b>1990</b>	16%	78%
<b>2006</b>	10%	83%

# Small Employer Group Rate Increases

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# Small Employer Enrollment Decrease





## Spreading the risk of high cost enrollees

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“5% costliest enrollees make up 50% of spending.”

The intent of public reinsurance is to stabilize rates by assuming the random expense of high-cost enrollees.

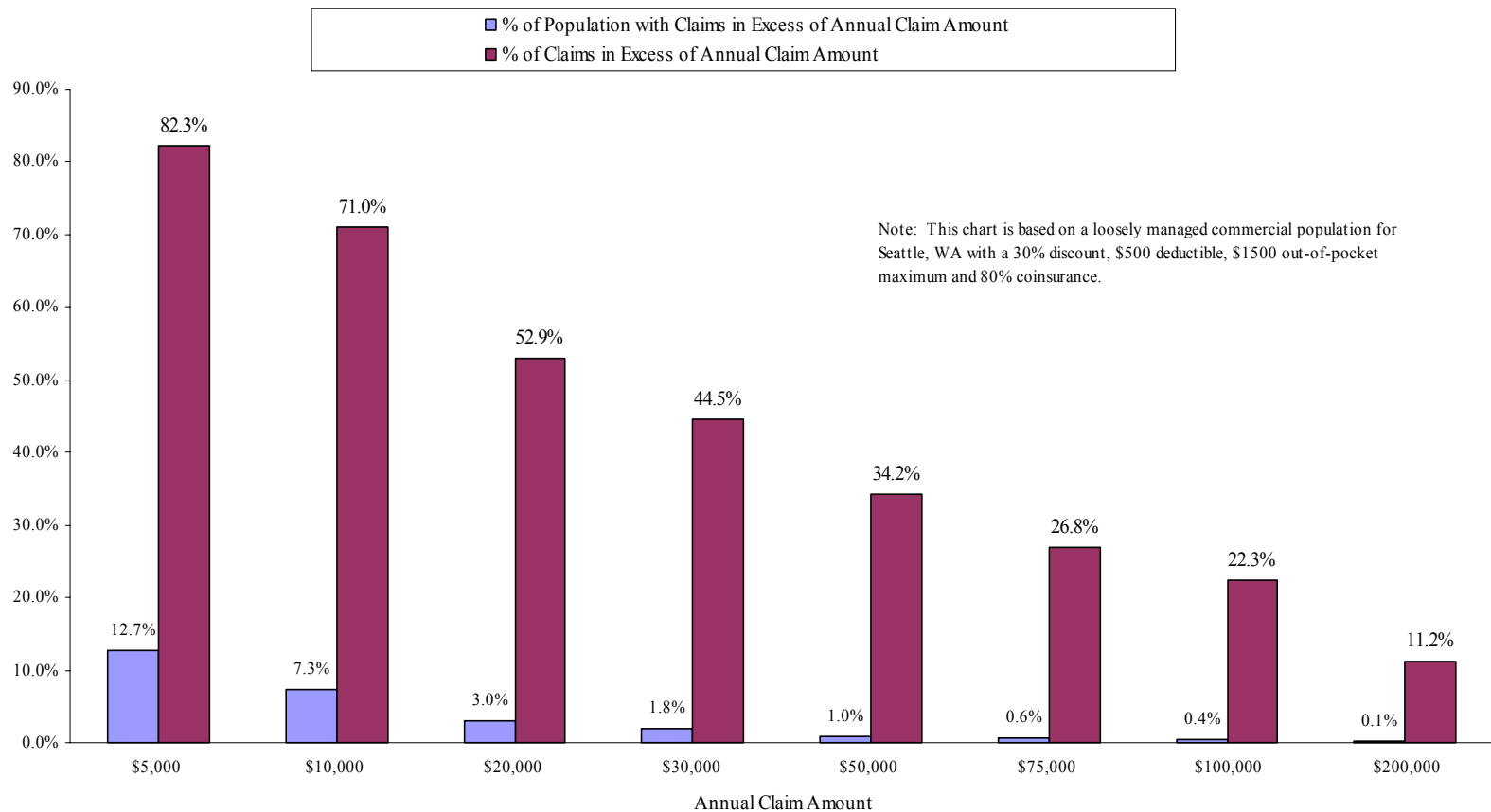
# Premium assistance to small employers

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- Healthy New York reinsurance program (2001)
  - Small employer -- eligible when at least 30% of employees earn less than \$35,500 (adjusted for inflation).
  - Public reinsurance pays 90% of claims between \$5,000 and \$75,000.
  - Premiums 15%--30% lower than comparable plans in New York's private small group market.
  - Healthy New York covers 24,000 small group enrollees (November 2005).

# Distribution of Claims

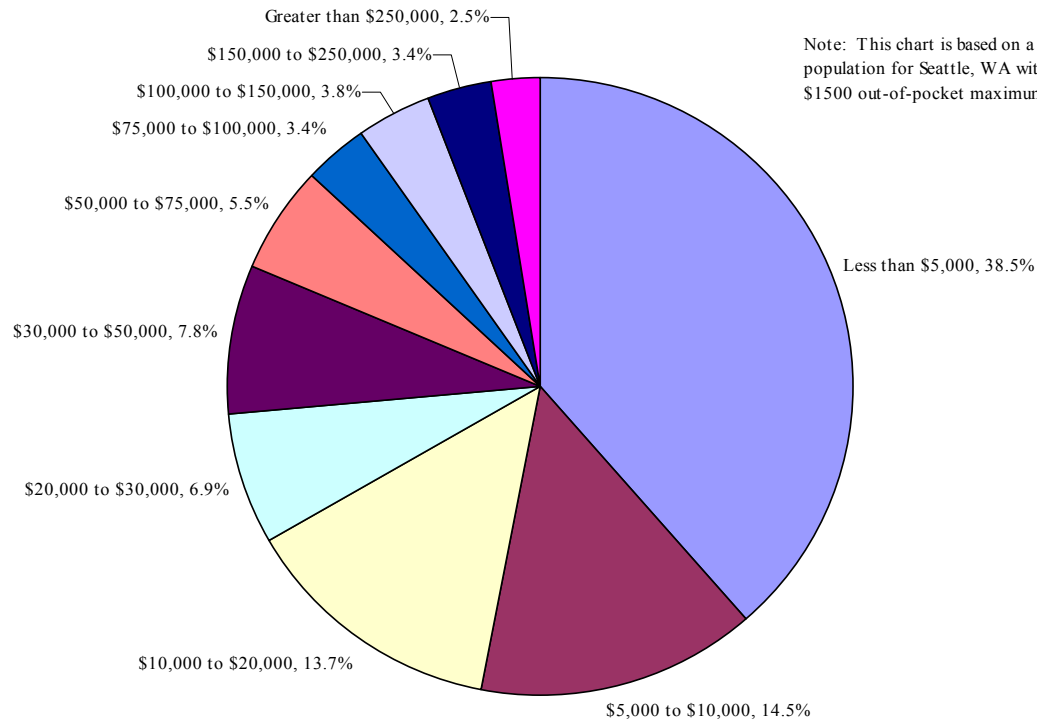
*Distribution of Population and Claims in Excess of Annual Claim Amount*





# Allocation of Claims

*% of Claims within Annual Claim Ranges*



Note: This chart is based on a loosely managed commercial population for Seattle, WA with a 30% discount, \$500 deductible, \$1500 out-of-pocket maximum and 80% coinsurance.

# Deductible Leveraging Example

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## Year 1

- ❑ Sample Claim \$90,000
- ❑ Reinsurance Deductible \$30,000
- ❑ Reinsurance Percentage 90%
- ❑ Reinsurance Amount  $\$54,000 = (\$90,000 - \$30,000) \times 0.90$
  
- ❑ Annual Claim Trend 10%

## Year 2

- ❑ Sample Claim  $\$99,000 = \$90,000 \times 1.10$
- ❑ Reinsurance Deductible \$30,000
- ❑ Reinsurance Percentage 90%
- ❑ Reinsurance Amount  $\$62,100 = (\$99,000 - \$30,000) \times 0.90$
  
- ❑ Reinsurer Claim Trend  $15\% = (\$62,100 / \$54,000) - 1$



# Blue Ribbon Commission on Health Care Costs and Access

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Recommendation #11: Address the affordability of coverage for high-cost individuals.

- **First Action:** Evaluate Options for restructuring and improving Washington State Health Insurance Pool (WSHIP) by March 1, 2007
  - Chronic care management
  - Reimbursement rates and plan design
  - Eligibility and subsidy criteria



# Blue Ribbon Commission on Health Care Costs and Access

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Recommendation #11: Address the affordability of coverage for high-cost individuals.

- **Second Action:** Evaluate replacing WSHIP with a reinsurance program.
  - Reinsurance expert retained by OIC to evaluate conceptual options
  - Outline – public comment by February 5, 2007
  - Initial draft by mid-March, 2007
  - Report by April 30, 2007